

In the Matter of)	No. G 01-23
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
WESTERN UNITED LIFE ASSURANCE)	AND ORDER ADOPTING REPORT
COMPANY)	OF
		FINANCIAL EXAMINATION

A Domestic Insurer. _____

BACKGROUND

An examination of the financial condition of **WESTERN UNITED LIFE ASSURANCE COMPANY** (the Company) as of December 31, 1999, was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on May 1, 2001. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 5 through 41 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **WESTERN UNITED LIFE ASSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, this being the Instructions and Comments and Recommendations contained in the examination report on pages 2 through 20.

1. The Company is ordered to comply with the statutory provisions in the Insurer Holding Company Act, specifically RCW 48.31B.030, which requires prior approval of transactions consisting of sales and purchases of securities, mortgages, affiliate loans and other invested assets which exceed three percent of prior year's admitted assets. Instruction 1, Examination Report, page 5.
2. The Company is ordered to comply with the statutory provisions of the Insurer Holding Company Act, specifically RCW 48.31B.025, which requires filing an amended Form B per WAC 284-18-410 for all transactions between the Company and affiliates which exceed individually $\frac{1}{2}$ of one percent of the Company's admitted assets, or at such point like transactions total $\frac{1}{2}$ of one percent of the Company's admitted assets in annual cumulative total. Instruction 2, Examination Report, page 5.
3. The Company is ordered to comply with RCW 48.12.030(5) by reporting unpaid general expenses using the accrual method on Exhibit 5. In addition, an adjustment for the unpaid general expenses is required to accurately reflect general expenses in the year of occurrence under the accrual method. Instruction 3, Examination Report, page 6.

4. The Company is ordered to properly identify, estimate and report federal income tax recoverable. This will ensure full and adequate accounts and records of its assets, obligations, transactions, and affairs in compliance with RCW 48.05.280 and enhance the credibility and accuracy of future statutory and other filings. Instruction 4, Examination Report, page 6.
5. The Company is ordered to comply with RCW 48.07.040 by holding annual shareholders meetings within the first four months of every year. Instruction 5, Examination Report, page 7.
6. The Company is ordered to comply with RCW 48.05.250 in the booking and collecting of all amounts due on the assets covered under the guarantees by affiliates when realized on a quarterly or other reasonable basis as stated in the intercompany Management, Acquisition and Servicing Agreements. Instruction 6a, Examination Report, pages 7 and 8.
7. The Company is ordered to comply with RCW 48.31B.030(1(a)(iii) to seek specific performance under the agreed upon terms of the intercompany agreement with Metropolitan Mortgage and Securities, Inc. Under performance of the contract, Metropolitan Mortgage and Securities, Inc., and the Company need to estimate and establish a loss reserve which would be required to cover the present value of expected losses over the remaining expected life of those remaining receivables under agreement. Instruction 6b, Examination Report, page 8.
8. The Company is ordered to comply with RCW 48.12.020 to non-admit furniture, furnishing, fixtures, safes, equipment, vehicles, library, stationery, literature, and supplies. Instruction 7, Examination Report, page 9.
9. The Company is ordered to review capitalized costs to properly classify items to be expensed or capitalized in a manner prescribed by the NAIC Accounting Practices and Procedures Manual pursuant to RCW 48.05.250 and WAC 284-07-050(2). Instruction 8a, Examination Report, page 9.
10. The Company is ordered to comply with RCW 48.05.280 to enhance its controls and oversight on investment real estate in order to properly obtain title insurance and identify encumbrances that would diminish the value and ownership of assets pursuant to RCW 48.13.130 which defines an encumbrance. Instruction 8b, Examination Report, page 9.

11. The Company is ordered to correct all deficiencies noted in Instruction 8 (c) and institute written guidelines that are periodically reviewed for adherence. This will ensure full and adequate accounts and records of its assets, obligations, transactions, and affairs in compliance with RCW 48.05.280 and WAC 284-07-050(2) to enhance the credibility and accuracy of future statutory and other filings and comply with NAIC Annual Statement Instructions. Instruction 8c, Examination Report, page 10.
12. The Company is ordered to comply with RCW 48.13.140 to obtain appraisals on the Broadmoor and Spokane Valley properties in order to more accurately determine their value. Instruction 8d, Examination Report, page 10.
13. The Company is ordered to continually monitor controls and processes and to perform internal audits on mortgage loans and other real estate investment to ensure title insurance is obtained and assignments are recorded in a timely manner, perfecting legal title, and complying with RCW 48.12.010. Instruction 9a, Examination Report, page 11.
14. The Company is ordered to comply with RCW 48.13.120 to enhance controls to ensure compliance with, and to non-admit all balances that exceed the loan to value requirements. The Company must review all existing files to identify and non-admit all non-conforming loan to value balances and refrain from purchasing any loans that do not meet the statutory guidelines. Also, pursuant to RCW 48.31B.030(1)(b)(iv), the Company must formalize and submit for approval to the Insurance Commissioner's Office, any participation agreement the Company chooses to utilize in order to reserve for or mitigate against non-compliant loan to value mortgage loans. Until such time of approval, no credit will be given for any participation or reserved funds which are not specifically segregated and earmarked for this specific purpose. Instruction 9b, Examination Report, page 11.
15. The Company is ordered to maintain sixty-five percent or less of its assets in real estate, real estate contracts, and notes, bonds and other evidences of debt secured by mortgage on real estate in compliance with RCW 48.13.265. The SMMEA preemption of state law should only be applied to mortgage backed securities that meet the Title 15 USC requirements. Instruction 10, Examination Report, page 12.

16. The Company is ordered to comply with RCW 48.12.030(6) and the guidelines set forth in the NAIC Annual Statement Instructions, when accruing all guarantee fund assessments that are probable and estimable. Instruction 11, Examination Report, page 12.
17. The Company is ordered to comply with RCW 48.07.130 ceasing all commissions to officers of the Company. Instruction 12, Examination Report, page 13.
18. The Company is ordered to formalize an agreement for its intercompany borrowing arrangement with Metropolitan Mortgage and Securities, Inc., which includes a provision to assess Metropolitan a fair and reasonable market rate of interest and to have it approved by the Office of the Insurance Commissioner pursuant to RCW 48.31B.030. The Agreement must be fair and reasonable as required by RCW 48.31B.030, and if the annual cumulative total of the loans to Metropolitan exceeds three percent of prior year's admitted assets, it must be approved pursuant to RCW 48.31B.030(1)(b). Instruction 13, Examination Report, page 13.
19. The Company is ordered to comply with RCW 48.05.280 and WAC 284-07-050(2) to include premiums payable on reinsurance ceded when determining due and deferred premiums on its life insurance policies. Instruction 14, Examination Report, page 14.
20. The Company is ordered to correct the reporting deficiencies identified in Instructions 15 and 16 of the Examination Report. The Company is further ordered to comply with RCW 48.05.280 and WAC 284-07-050(2) to enhance the credibility and accuracy of future statutory and other filings and comply with NAIC Annual Statement Instructions. Instruction 17, Examination Report, page 16.
21. The Company is ordered to correct the deficiencies noted in Instructions 18a-d, and to institute written guidelines that are periodically reviewed for adherence. The Company is further ordered to comply with RCW 48.05.280 to ensure full and adequate accounts and records of its assets, obligations, transactions, and affairs. Instruction 18, Examination Report, page 17.

22. The Company is ordered to comply with RCW 48.31B.030 to file its amendments addressing intercompany transactions and agreements to include additional documentation, stating the services, responsibilities and considerations under the performance of the contract. Instruction 18a, Examination Report, page 17.
23. The Company is ordered to comply with RCW 48.05.280 to perform intercompany account reconciliations and institute written guidelines that are periodically reviewed for adherence. Instruction 18d, Examination Report, page 18.
24. The Company is ordered to comply with RCW 48.31B.030(1) and to calculate its proportion of ancillary income from all securitizations between affiliates and to received reimbursement from Metropolitan Mortgage and Securities, Inc., for all amounts due the Company and not previously paid. Instruction 19, Examination Report, page 18.
25. The Company is ordered to closely monitor its RBC ratios, verify compliance with RCW 48.05.430 and 48.05.435, and develop a RBC action plan to correct its negative trending. Comments and Recommendations #1, Examination Report, page 19.
26. The Company is ordered to provide a more accurate statement of future actuarial assets, reserves, and liabilities by implementing the recommendations found in Comments and Recommendations #2 found on page 19 of the Examination Report.
27. The Company is ordered to revise its home office depreciation schedule as recommended in Comments and Recommendations #3 found on page 20 of the Examination Report.
28. Company is ordered to seek a new determination letter for its pension plans following recent amendments, as recommended in Comments and Recommendations #4 found on page 20 of the Examination Report.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 6th day of June, 2001.

MIKE KREIDLER
Insurance Commissioner